



Income – Capital Gain or Loss; Form 1040, Line 13

Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions.	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7		
	8a	Taxable interest. Attach Schedule B if required	8a		
	b	Tax-exempt interest. Do not include on line 8a	8b		
	9a	Ordinary dividends. Attach Schedule B if required	9a		
	b	Qualified dividends	9b		
	10	Taxable refunds, credits, or offsets of state and local income taxes	10		
	11	Alimony received	11		
	12	Business income or (loss). Attach Schedule C or C-EZ	12		
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13		
	14	Other gains or (losses). Attach Form 4797	14		
15a	IRA distributions	15a			
16a	Pensions and annuities	16a			
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17			

About Capital Gain or Loss

- Additional resources listed in L< “References” tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise

The image displays two IRS tax forms. The background form is Form 8949, 'Sales and Other Dispositions', with the title 'Form 8949 Sales and Other Dispositions' visible. It includes instructions at the top: 'Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B. If you received a statement with the same information as Form 1099-B, either may show your basis. Brokers must report basis to the IRS for most stock you bought in 2011 or later (and for...' and 'Part II Long-Term. Transactions involving capital assets you held for one year or more. See page 1. Note. You may aggregate all long-term transactions reported to the IRS and for which no adjustments or codes are required.' The foreground form is Schedule D (Form 1040), 'Capital Gains and Losses', with the title 'SCHEDULE D (Form 1040)' visible. It includes instructions: 'Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B. If you received a statement with the same information as Form 1099-B, either may show your basis. Brokers must report basis to the IRS for most stock you bought in 2011 or later (and for...' and 'Part I Short-Term Capital Gains and Losses. See page 1. Information about Schedule D (Form 1040) Use Form 8949.' Both forms are from the Department of the Treasury, Internal Revenue Service.



Objectives – Capital Gain or Loss

- Compute the adjusted basis of a stock or other investment property
- Determine if an asset's holding period is long-term or short-term
- Calculate the taxable gain or deductible loss from the sale of stock
- Determine if a home is the taxpayer's main home
- Determine if a taxpayer meets the ownership and use tests
- Determine when the 5-year ownership/use test period is suspended
- Time Required: 1 hour

Topics



Reporting capital gain or loss

- Basis of Stock
- Holding period
- Proceeds from the sale
- Form 8949 and Schedule D
- Capital loss carryovers

Sale of main home

- Main home
- Ownership and use tests
- Gain on sale of main home
- Reporting gain from sale of home
- 5-year test period suspension



Key Terms

Definitions are always available in the L< online Glossary.

- Adjusted Basis
- Amount Realized
- Basis
- Capital Gain Distributions
- Capital Loss Carryover
- Dividends
- DRIP Accounts
- Excludable Income
- First-time Homebuyer Credit
- Five-year Test Period Suspension
- Holding Period
- Main Home
- Mutual Fund
- Qualified Principal Residence Indebtedness
- Sale of Main Home
- Selling Price
- Stock Dividends
- Stock Split
- Wash Sale



Reporting Capital Gain or Loss

- What forms are used for reporting capital gains and losses?
 - Schedule D and Form 8949
- What is cost basis?
 - Original purchase cost
- What is the holding period?
 - Time between the date of purchase and date of sale
- What is sales price?
 - Proceeds of sale of asset, gross or net, reported on Form 1099-B
 - If there is no Form 1099-B, taxpayer must provide this information

Basis of Stock

- Basis is usually the original purchase price of an asset
- What is adjusted basis?
 - Price/cost plus commissions or fees paid at time of purchase
- If Form 1099-B does not provide the basis, taxpayers must provide this information.
- If taxpayers received property as a gift or inheritance, and do not know the basis and holding period, refer them to a professional tax preparer.

<input type="checkbox"/> CORRECTED (if checked)		Applicable check box on Form 8949 <div style="text-align: center;"> 2014 Form 1099-B </div>		OMB No. 1545-0715 2014 Form 1099-B	Proceeds From Broker and Barter Exchange Transactions
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1a Description of property (Example 100 sh. XYZ Co.)			
PAYER'S federal identification number		1b Date acquired	1c Date sold or disposed	Copy B For Recipient	
RECIPIENT'S identification number		1d Proceeds \$	1e Cost or other basis \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other	
RECIPIENT'S name		1f Code, if any	1g Adjustments \$	2 Type of gain or loss: Short-term <input type="checkbox"/> Long-term <input type="checkbox"/>	
Street address (including apt. no.)		3 If checked, basis reported to IRS <input type="checkbox"/>	4 Federal income tax withheld \$	5 If checked, noncovered security <input type="checkbox"/>	6 Reported to IRS: Gross proceeds <input type="checkbox"/> Net proceeds <input type="checkbox"/>
City or town, state or province, country, and ZIP or foreign postal code		7 If checked, loss is not allowed based on amount in 1d <input type="checkbox"/>	8 If checked, loss is not allowed based on amount in 1d <input type="checkbox"/>		

Holding Period

- What is a short-term holding period?
 - 1 year or less
 - Taxed at regular income tax rates
- What is long term?
 - More than 1 year
 - Taxed at a lower rate than short-term
- Mutual fund shares are generally acquired at various times, in various quantities, and at various prices; figuring the basis can be difficult. Refer to [Pub 550](#) for information on how to report the sale or exchange of mutual fund shares
- Blocks of stock may have differing holding periods and bases. Unless specified at the time of sale, blocks/shares are sold using FIFO method (first in, first out)

Proceeds from the Sale

- Brokers report information about sale of stock on Form 1099-B
 - Entries in boxes 8 through 13 are out of scope
- Unless securities sold were noncovered, brokers must report:
 - Cost or other basis
 - Whether gain/loss is short-term or long-term

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		Applicable check box on Form 8949		OMB No. 1545-0715 2014 Form 1099-B		Proceeds From Broker and Barter Exchange Transactions	
1a Description of property (Example 100 sh. XYZ Co.)							
PAYER'S federal identification number		RECIPIENT'S identification number		1b Date acquired	1c Date sold or disposed		
				1d Proceeds \$	1e Cost or other basis \$		
				1f Code, if any	1g Adjustments \$		
RECIPIENT'S name		2 Type of gain or loss: Short-term <input type="checkbox"/> Long-term <input type="checkbox"/>		3 If checked, basis reported to IRS <input type="checkbox"/>			
Street address (including apt. no.)		4 Federal income tax withheld \$		5 If checked, noncovered security <input type="checkbox"/>			
City or town, state or province, country, and ZIP or foreign postal code		6 Reported to IRS: Gross proceeds <input type="checkbox"/> Net proceeds <input type="checkbox"/>		7 If checked, loss is not allowed based on amount in 1d <input type="checkbox"/>			
Account number (see instructions)		8 Profit or (loss) realized in 2014 on closed contracts \$		9 Unrealized profit or (loss) on open contracts—12/31/2013 \$			
CUSIP number		10 Unrealized profit or (loss) on open contracts—12/31/2014 \$		11 Aggregate profit or (loss) on contracts \$			
14 State name	15 State identification no.	16 State tax withheld \$		12 <input type="checkbox"/>			
				13 Bartering \$			

Form **1099-B** www.irs.gov/form1099b Department of the Treasury - Internal Revenue Service

**Copy B
For Recipient**

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Proceeds from the Sale

- TaxWise [Capital Gain or Loss Worksheet](#) determines short or long term gain, and calculates gain or loss, tax liability, and capital loss carryovers.
- Stock sales and other distributions may be reported by brokers on a 1099 Consolidated Statement or Substitute 1099.
- Review the sample in the L< Lesson

Thelma Emerson 123 Any Street Your City, State Zip Account Number: 1234-567-9012 SSN: XXX-XX-XXXX		ABC Investments 456 Main Street Your City, State Zip Phone (XXX) XXX-XXXX FEIN: XX-XXXXXX		2014 12-31-14
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Substitute 1099-B Date of Sale Box 1a	Stocks, Bonds-Sales price (less commision) Box 2	Description Box 8	Federal Income Tax Withheld Box 4	Noncovered Security Stocks Sold in 2014 Box 6
2-23-14	\$ 2,100.00	20 shares Tractor Company	\$ 0.00	<input checked="" type="checkbox"/>
6-1-14	\$ 900.00	100 shares Car Company	\$ 0.00	<input checked="" type="checkbox"/>
6-22-14	\$14,000.00	500 shares Couch Company	\$ 0.00	<input checked="" type="checkbox"/>
7-5-14	\$ 2,000.00	25 shares Technology Company	\$ 0.00	<input checked="" type="checkbox"/>

Form 8949 and Schedule D

- Use [Form 8949](#) for reporting details of capital gain or loss transactions.
 - Short-term transactions go on Form 8949, page 1.
 - Long-term transactions go on Form 8949, page 2.
 - See Pub 4012, Income tab, [How to Complete Form 8949, Columns \(f\) and \(g\)](#) for details.
 - Form(s) 8949 subtotals transfer to [Schedule D](#) in aggregate.
- Enter data in the TaxWise Capital Gain or Loss Transactions Worksheet, which then transfers to Form 8949 and Schedule D.
 - If data from source documents (Forms 1099-B and 1099-DIV) is entered properly, amounts will be reported in the appropriate places



Capital Loss Carryovers

- What is the most net capital loss a taxpayer can take in a single year?
 - \$3,000 (\$1,500 for Married Filing Separately)
- Unused losses can be carried over to later years until gone
- Previous year return is needed to figure capital loss carryover. Use:
 - [Capital Loss Carryover Worksheet](#) from Schedule D instructions, and/or
 - Tax software's Schedule D Worksheet (Capital Loss Carryovers from This Year to Next Year)

Practice

- Practice exercise for reporting capital gain or loss on line 13
- Select the problem from Publication 4491-W based on your certification course of study
- Complete the exercise



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VITA/TCE Problems and Exercises **2014 RETURNS**
Volunteer Income Tax Assistance (VITA) / Tax Counseling for the Elderly (TCE)



Sale of Main Home

- Taxpayers may be able to exclude from taxable income the gain from sale of a main home.
 - Up to a maximum of \$250,000 (\$500,000 for Married Filing Jointly)
- Volunteers need to confirm the home sold was the taxpayer's main home, and the taxpayer meets the ownership and use tests.
 - For help in making this determination, see [Pub 17](#) or [Pub 523](#).

Main Home

This section explains the term "main home." Usually, the home you live in most of the time is your main home and can be a:

- House,
- Houseboat,
- Mobile home,
- Cooperative apartment, or
- Condominium.

To exclude gain under the rules in this publication, you in most cases must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date of sale.

Land. If you sell the land on which your main home is located, but not the house itself, you cannot exclude any gain you have from the sale of the land.

Publication 523 (2013) Current year not available.



Ownership and Use Tests

During the five-year period ending on the date of the sale, the taxpayer must have:

- Owned the home for at least two years (the ownership test), and
- Lived in the home as his or her main home for at least two years (the use test)
- In addition, during the two-year period ending on the date of the sale, the taxpayer must *not* have claimed an exclusion on a gain from the sale of another home.
- See the L< lesson for details on period of ownership and use



Gain on Sale of Home

- Figuring the gain or loss on the sale of a home is based on:
 - Selling price
 - Amount realized
 - Basis
 - Adjusted basis
- See the worksheet examples in Pub 523
 - [Adjusted Basis of Home Sold](#)
 - [Taxable Gain on Sale of Home](#)
- Remember – loss on the sale of a personal residence is not deductible.

Reporting Gain from the Sale of Home

- Gain must be reported when
 - Amount is greater than the allowed exclusion
 - Home is *not* the taxpayer's main home
- If taxpayer received [Form 1099-S](#) for their gain or loss on the sale of a main home, it must be reported on Form 8949 and Schedule D

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see Column (e) in the separate instructions	If you enter an amount in column (g) , enter a code in column (f) . See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
					(f) Code(s) from Instructions	(g) Amount of adjustment	
Main Home - Section 121 Exclusion	09/03/04	07/07/14	789,000	226,000	B	(500,000)	63,000
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b .							
8b Totals for all transactions reported on Form(s) 8949 with Box D checked							
9 Totals for all transactions reported on Form(s) 8949 with Box E checked							
10 Totals for all transactions reported on Form(s) 8949 with Box F checked				789,000	226,000	(500,000)	63,000

5-Year Test Period Suspension

- 5-Year ownership and use period may be suspended during any period of “qualified official extended duty” for a taxpayer who is:
 - Member of uniformed services or Foreign Service of the U.S.
 - Intelligence community employee
 - Employee or volunteer of the Peace Corps
- Qualified official extended duty:
 - Serve at a duty station at least 50 miles from their main home, or
 - Live in government quarters under government order
 - Called to active duty for more than 90 days or an indefinite period

Practice

- Practice exercise for reporting gain from sale of a home
- Select the problem from Publication 4491-W based on your certification course of study
- Complete the exercise



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VITA/TCE Problems and Exercises **2014 RETURNS**
Volunteer Income Tax Assistance (VITA) / Tax Counseling for the Elderly (TCE)



Out of Scope for this Lesson:

- Taxpayers who have sold any assets other than stock, mutual funds, or a personal residence
- Determination of basis issues:
 - Basis of stock acquired other than by purchase or inheritance, such as a gift or employee stock option plan
 - Basis of inherited property determined by method other than the fair market value (FMV) of the property on the date of the decedent's death
 - Basis of property acquired from a decedent who died in 2010
 - Basis of property received as a gift
- Like-kind exchanges and worthless securities
- Form 1099-B, boxes on Bartering: Profit or (loss) realized on closed contracts; Unrealized profit (loss) on open contracts – prior year; Unrealized profit or (loss) on open contracts – current year; or Aggregate profit (loss) on contracts
- Reduced exclusion computations/determinations in the sale of a home
- Married homeowners who do not meet all requirements to claim the maximum exclusion on sale of home
- Decreases to basis, including:
 - Deductible casualty losses and gains a taxpayer postponed from the sale of a previous home before May 7, 1997
 - Depreciation during the time the home was used for business purposes or as rental property
- Taxpayers with “nonqualified use” issues
- Sale of a home used for business purposes or as rental property
- Form 4797 - Other gains or (losses)



Summary – Capital Gains and Losses

- In this lesson, you learned how to identify an asset's holding period, adjusted basis, net short-term and long-term capital gains or losses, the taxable gain or deductible loss, and the amount of capital loss carryover.
- Taxpayers must use Form 8949 and Schedule D to report capital gains and losses.
- Completion of Form 8949 and Schedule D requires information from Form 1099-B and Form 1099-DIV or a 1099 Consolidated Statement and from taxpayer records.
- Information from a taxpayer's prior year return is needed to compute a loss carryover amount.



Summary – Sale of a Main Home

- This lesson covered how to report the sale of a taxpayer's principal residence.
- To exclude gain from sale of a home :
 - The home sold was taxpayer's main home (place the taxpayer lived most of the time)
 - Owned the home for at least two years (the ownership test), and
 - Lived in the home as their main home for at least two years (the use test)
 - The required two years of ownership/use need not be continuous
 - Taxpayer did not exclude gain in the two years before the current sale of the home
- 5-Year test period can be suspended for taxpayers serving on qualified official extended duty.